

COST MANAGEMENT IN THE CONDITIONS OF THE ACTUAL WORLD FINANCIAL CRISIS

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Abstract. *In this article we outlined the importance of the costs of providing the necessary information to the management in order to take the best decisions in crisis conditions. We considered the following objectives that an enterprise should have in the conditions of an unfavourable economic environment: the importance of the costs with the wages in the cost structure of the enterprise, the analysis of the hidden costs, the investment policy in crisis conditions, the expenses with financing on short term, the readjustment of the commercial contracts and limiting the expenses with external labour conscription, the sales growth policy by diminishing the advertising expenses.*

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1. The role of information concerning the costs when adopting rational decisions

The complexity of the economic activities in the conditions imposed by the financial crisis and especially by the economic crisis that is going to follow, determines the growth of the role of the economical and financial information in decision-making. The quality of the current decisions, long-time decisions and of the forecasted results of the enterprise depends on the quality of the information. In the orientation and substantiation of the managerial decisions at microeconomic level, managerial accounting, through the information provided, plays an important role in providing an adequate decision.

When taking a decision in crisis conditions, there are several steps one must follow, like: identifying the problem that must be solved, identifying the alternative ways of action, the analysis of the effects of each alternative way of action on the enterprise's future results and selecting the best alternative.

Providing information to the management is done with the help of **managerial accounting**. Managerial accounting develops internal control systems in order to increase efficiency and prevent fraud. It contributes to planning, budgeting and controlling costs. Managerial accounting should help the leaders and those who are entrusted with the power in all phases of their action. This evolution of the terminology should be linked to the bond made by some authors between *cost accounting* and *management (managerial) accounting*. The concept of **managerial accounting** (Anthony, 1990) was invented in order to mark an opposition between the approach that says that „*people use the figures*” – approach that tries to influence the decision-markers' behaviour – and the one that „*uses only figures, mechanics, which*

has as sole objective to discover the cost of the industrial products". For the **managerial accounting**, the criterion is the convergence of the objectives because, when the decision makers reach their goals, they contribute in the same time to the achievement of the goals of the organization. For **cost accounting**, the criterion is the reliability implied by costs. Horngreen (1989) reviewed this idea, making cost accounting a part of managerial accounting which interests financial accounting because it evaluates some parts of the balance sheet. The idea should be stated with conviction: managerial accounting is not a simple calculus technique that applies to objects, but a **manner of orienting the behaviour of the persons**.

Under the double-effect of the pressure coming from the competition and the world financial crisis, the enterprises feel the need to understand better their costs in order to determine with maximum precision the selling prices and the limits that can be achieved for each product. It's not only about prevision, there should also be considered the necessary ways in order to achieve the goals. That's how we can explain the development of the today's managerial control and of its favourite instrument, the analytic accounting of which not even an important enterprise could be spared.

The managerial accounting provides an information on whose relevance and reliability the foundation of its quality is built. This information is relevant if it's adapted to the decision and it is reliable if it collects all the useful data and it shapes it accurately. There are two reasons due to which one can wander when using accounting information in management: the use of an inadequate information or the use of an adequate information but not adapted to the decision.

The emergence of new decentralized structures of the current management in medicines enterprises made from managerial accounting an essential tool of the management of large enterprises, allowing the management to know the accounting results of the decentralized entities.

As production diversified and, in the same time, the activity of the enterprises started to develop, distance and complexity made it necessary to delegate some responsibilities. The domination of costs and performances should have been realized through mastering the performances of the persons that can be delegated with a part of the economical power. Further more, managerial accounting seems to be the ideal tool for "running" things from a distance. Clearly, the calculation of costs of goods and services is, from now on, just an objective among others of managerial accounting and it is oriented more and more towards the evaluation of the centres of responsibility, centres that have become the basic units of the calculus systems.

In a general manner, managerial accounting should provide all the elements that can illustrate how decisions are made, contributing to the application of mathematical methods such as operational research. The managerial accounting becomes a veritable tool in the hands of a responsible leadership of the company, in an attempt to control the future.

The usefulness of managerial accounting can be found on one hand in the flexibility in using information, and on the other hand in an almost total autonomy in

relation to legislation, especially tax legislation, autonomy that is in favour of the economical vision over juridical vision principle.

2. Management through costs, viable premise for mitigating the financial crisis impact on the activity of the enterprise

Among the most important lines of action in the current conditions, we could find: the reducing of labour costs in the enterprise cost structure, the analysis of hidden costs, the investment policy in crisis situations, expenditures with short term financing, the readjustment of the commercial contracts and limiting of the costs with external labour, the policy of increasing sales by reducing advertising costs.

The economy based on knowledge and information, marked by a vertical and horizontal integration, was translated in the end through an internalization (shifting in the duty of the enterprise) of the operations that were previously the subject of transactions between customers and suppliers. External transactions were gradually replaced by internal flows of which's costs were more easy to know. To reduce the effect of the lack of information previously provided by the market and the collapse of the internal flows into a sort of a black box that would have rendered them invisible, it was necessary to determine the internal transfer costs and, consequently, to integrate this calculation because of the high complexity of the flows, within the accounting system, in order to ensure coherence and transparency.

Behind the demand-offer ratio of the price competition, in an indirect way, one will find the **cost-competition**. *Knowing the costs* states the limits the negotiations generated by the demand-offer ratio can reach. Any acceptance of prices below the level of costs will generate losses. For short periods of time or for limited quantities of products, sale prices below the production costs can be accepted. For the correct determination of production costs a fair calculation of the internal costs is imposed.

What are the most important symptoms of the crisis in Romania? An important decrease in sales, harder crediting conditions, a currency which disadvantages importers, a public market that gets restricted, a delay of payments, a general feeling of insecurity of employment stability and of the general economic environment, an increase in unemployment, a delay in financing investment in the public sector, a country rating that wont encourage the foreign capital infusion.

Among the problems mentioned above, we will mention only those which negative effects of the crisis could be counteracted by the company, through cost management.

These characteristics meet the requirements of the tasks which should be accomplished by the cost management, namely:

- to allow the evaluation of the functioning of various services and business activity centres due to, for example, the cost calculation on functions or on exploitation activity or on a responsibility centre, making an estimation of the

technical productivity of different factors of production (technical or human capital, material consumption);

- to enable the formulation of an estimation of the return of capital employed or to be employed; it must also allow the formulation of an estimation for the policy of fixing the prices of sale;

- to allow the calculation for pre-established costs and the substantiation of production expenditure budgets; to enable a systematic comparison of the figures from the plan with the ones realized and also a interpretation of the determined deviations.

- to become an essential component in the internal control appreciation, especially if the enterprise is required to be audited.

The information on production costs are used in the assets evaluation and profit measurement and constitute the result of data collection in the accounting management system. Information on costs is provided, in general, by accounting systems which prove to be insufficient to make decisions. In a traditional way, the elements of the costs are gathered following an industrial logic (on product, on paper) or an organizational logic (on analysis or responsibility centre), but never after a „social” logic.

The managerial decision must be based on relevant costs (costs that allow taking the best measures for enterprise management), recognized by their forecasting characteristics which record the hidden or the opportunity costs, social costs and external costs. Since decisions affect future activities, the management requires detailed information regarding the future costs, some of which not included in the accounting data collection system. Regarding the drafting of decisions, the objective is not only to distribute the profit on certain accounting periods, but also to examine all its possibilities for growth in the future. The costs of activities that have already occurred, corrected with the index for inflation, may be the starting point in the process of decision making of future activities that are going to be undertaken.

If the enterprise decides to decentralize the decision, it is often obliged to create profit centres, meaning responsibility centres fitted with an account for results. In order for the profit determination for these centres to make sense, all their consumptions have to be charged or settled, using systems of internal transfer price for transactions that occur between centers. From the centre's point of view, the only costs that are fixed are the ones that are independent from its activity. What is considered to be a variable cost for the centre according to this condition, may be a fixed cost at enterprise level.

The phenomenon is as follows: are considered fixed those costs which don't depend on the volume of a product or service; the cost of this product is only the result of the elementary costs of the centres which process it. If the strategic decision is attached to the product or service, the current decision will be situated within these centres. The variable costs are the ones that the centres consider as variable: this conception may deviate from what is perceived to be a variable cost in reality.

Of a particular importance for conducting an economical analysis on costs is the establishment of the sequence of “time” variable for which is built and sized the

level of costs for each product. However, the distinction between “short term” and “long term” is fundamental to economic analysis. Cost evolution doesn’t have the same angle if the moment of the analysis is positioned on a shorter or longer period of time.

In general, short-time laws of cost evolution are based on maintaining the same technical base of production. The decision of growing the production is taken if the production capacity allows it. In other words, on short-time, an enterprise can operate in the same technical conditions regarding the means of work (cars, machinery, plant and equipment, construction, etc.), and production can increase or decrease due to other variable production factors, such as raw materials and materials, semi-employment, etc. In this short time horizon, the modification of costs is influenced especially by the changes in the current assets and in the capacity and work efficiency.

Long-time period is considered to be the one that allows the enterprise to modify its production by modifying the structure and volume of machinery and equipment, thing that will influence the level and cost structure.

In a short period of time, production costs can be grouped by their content and their way of calculation in three categories: total cost (full cost), average cost and marginal cost.

The analysis of the *cost-volume production interdependence* highlights the fact that in any dynamic economy the production growth is not carried out with uniform costs per unit of product, but differential. In modern management of the company, one operates not only with average costs but, as we saw, with marginal cost too.

Marginal cost curve evolution highlights the need of action of the enterprise by deciding to replace the equipment and machinery in order to identify the necessary conditions for sustaining the minimum level of average cost. In general, studies prior to decisions concerning the growth of production volume should be based on the comparison of the global budgets, on the evolution of different types of costs and on the relationships between them for the period taken into account.

As long as the marginal cost remains lower than the selling cost, the enterprise is positioned in the profitability area. But if it exceeds the selling price, then the benefit decreases because each extra unit costs more than the selling price charged.

In the variable sales price hypothesis, if an enterprise is obliged to reduce its selling price, although the production increases considerably, the reasoning will be the same. As long as a series will have a marginal cost lower than an additional turnover that it can afford, the interest in this condition will be to develop the production. Once the threshold is exceeded, it would be better to stop the production. Many enterprises use differential pricing, for example granting commercial discounts to certain customers (tie, rebates). One can consider that, even though it seems artificial, the normal price is applied only to the first series of products, the price being lowered for the following series. It is obvious that if one wishes to produce less, one will keep only the customers who pay high prices.

Conclusions

The information provided by managerial accounting and cost calculation is important only for the company strategy. The observation of the various methods of determining the costs in the industrial enterprises reveals that the calculation is based on a prior understanding of the articulation of the enterprise functions. In fact, spending is accumulated as enterprise functions are put to work. The information provided by managerial accounting and cost calculation can be divided into two types: accounting and extra-accounting (normative and plans, used especially in the budget). Accounting information may be a primary one (based on primary documents), a financial one (obtained from accounting records) and a managerial one (provided by the internal reports on management levels).

The careful choice of the elements and results that the analytical accounting users need is imposed. The users must always follow two fundamental principles: *the principle of the threshold of signification* – several significant figures are more efficient than a voluminous documentation that can't be consulted because of lack of time; *the principle of relevance* – an approximate but sufficiently accurate information, rapidly obtained, is often more useful than a precise information known later.

As a conclusion, each enterprise has its own managerial accounting, adequate to the enterprise's specific activity, and a fan of pertinent costs that should be calculated and which is likely to suffer future changes as a result of the action of the internal and external factors of the enterprise.

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